Cost Allocation

South Pacific Division
Planning Division

Cost Allocation

- Cost allocation is the systematic distribution of costs among the project purposes of a multipurpose project
- The significant outputs of the cost allocation study are the percentages for allocating joint-use costs among purposes
- Differs from cost apportionment which is the determination of Federal and non-Federal costs

Costs Included in Allocations

- Costs include construction expenditures, LERRD, interest during construction and O&M
- Computed on the basis of annual costs and benefits
- Certain Highway betterment costs and cultural resource costs less than 1 % are not included

Costs may be allocated to:

- Environmental Restoration
- Navigation
- Flood Control
- Storm Damage Reduction
- Recreation
- Water Supply
- Power
- Coastal Erosion
- Fish & Wildlife Enhancement
- Stream flow Regulation
- Irrigation
- Limited Water Supply

Cost Allocation Method

- Separable Costs-Remaining Benefits method (SCRB) was adopted by interagency agreement as the preferred method for allocating costs of multipurpose water resource projects

Separable Costs

- Costs incurred to add a purpose to a project
- Determined by subtracting from the cost of a multipurpose project the cost of the most economical alternative project to obtain the same benefits for the other project purposes
- Benefits of a purpose must exceed the separable costs

Allocation of Joint Costs

- Joint Costs are the total costs minus the total separable costs
- Remaining benefits provide the basis for allocating joint costs among purposes
- Benefits are limited to the cost of the most economical single-purpose alternative

Addition of a Purpose

- All added costs incurred by adding a new purpose shall be allocated to the new purpose
- All purposes should share in the joint-use costs considering comparative benefit accruals over the new period of analysis
- New period of analysis is remaining physical life or 100 years
- Interest rate will be current rate

Restrictions on Allocations

- Restrictions on Recreation
- Allocation is not made for incidental benefits
- When the addition of a new purpose entails identifiable costs and significant changes in expected benefits to other purposes, reallocation should be accomplished

Cost Allocation Examples